

Statement of Rep. Edward J. Markey (D-MA)
House Subcommittee on Commerce, Trade and Consumer Protection
Hearing on Freddie Mac's Accounting Restatement: Are Accounting Standards
Working?
Wednesday, January 28, 2004

Thank you, Mr. Chairman, for convening today's hearing on the Financial Accounting Standards Board's (FASB's) derivative accounting standards and the nature and adequacy of Freddie Mac's compliance with these standards.

Shortly after last May's announcement by Freddie Mac that its senior management team was either being fired or was retiring in response to concerns over Freddie Mac's accounting practices, I asked you and Chairman Tauzin to hold hearings on this important subject. I appreciate your willingness to focus the Subcommittee's attention on this matter, and I look forward to continuing to work with you on a bipartisan basis as the Subcommittee's inquiry proceeds.

Congress established Freddie Mac and its sister company, Fannie Mae, to link Wall Street financing to the goal of promoting home ownership throughout Main Street America. In order to advance this objective, Congress has allowed these two companies many regulatory benefits – such as exemptions from state taxes, a line of credit at the U.S. Treasury, and an exemption from the registration and financial reporting requirements of the federal securities laws. But while Freddie Mac and Fannie Mae might be “government sponsored enterprises,” they are also private, investor-owned corporations. As such, they have responsibilities to their shareholders, including the responsibility to provide full and complete disclosures regarding their financial and operating condition and to obtain audited financial statements that comply with generally-accepted accounting principles.

I have felt for some time that Congress needs to repeal the registration and reporting exemptions granted to Freddie Mac and Fannie Mae to ensure full and accurate disclosure and accounting practices at these companies. That is why I have cosponsored legislation with Representative Christopher Shays, H.R. 2022, which would accomplish this objective.

Today, we will hear from Freddie Mac's principal regulator, the Office of Federal Housing Enterprise Oversight (OFHEO) about the results of its investigations into accounting irregularities at Freddie Mac. OFHEO's December 2003 Report on its Special Examination of Freddie Mac raises a number of very disturbing issues that I look forward to hearing about today. The OFHEO report describes a corporate culture that “case aside accounting rules, internal controls, disclosure standards, and the public trust in the pursuit of steady earnings growth.” It details instances in which Freddie Mac “knowingly circumvented prevailing public disclosure standards in order to obfuscate particular policies and specific capital market and accounting transactions,” and it finds

“a disdain for appropriate disclosure standards...[that] misled investors and undermined market awareness of the true financial condition of the Enterprise.”

In my view, these findings only serve to underscore the failure of ‘voluntary disclosure’ to serve the needs of American investors and of our financial markets. In the aftermath of this accounting scandal, it is time for Freddie Mac’s new leadership to change course and embrace legislation to repeal its special exemption from SEC registration and reporting requirements. There is no single step that Freddie Mac could take that would do more to signal to investors that the corporate culture at the company has changed. There is no single step that the Congress could undertake which would better protect investors from a repetition of the type of accounting problems that we have seen at Freddie Mac.

Mr. Chairman, I want to thank you once again for calling today’s hearing and I look forward to hearing the testimony.